



Public Policy Research Center
Центр Анализа Общественных Проблем

PPRC NEWSLETTER

Dear readers!

On 29 April 2005 PPRC held Roundtable «Strategies and mechanisms of natural resources revenues utilization: experience of Alberta (Canada) and Kazakhstan».

The goal of Roundtable was to arrange public discussion and actualize the most important strategic issues related to improvement of efficiency of natural resources revenues utilization, using international experience.

Representatives of President's Administration and the Government of the Republic of Kazakhstan, deputies of Senate and Majilis of RK Parliament, Chairman of Accounting Committee on control for republican budget implementation, staff of international and non-governmental organizations, Embassies of USA and Netherlands, representatives of oil companies, research institutes, mass media and experts participated in the Roundtable.

Opening the Roundtable, **M.Makhmutova**, PPRC Director, said: «This is the next public discussion we hold in the frames of our large project «Monitoring of raw sector revenues formation and utilization in the Republic of Kazakhstan». This is the series of debates on National Funds' experience in different countries. Earlier the concepts of the following Oil Funds were presented: *Stabilization Fund of Russian Federation, State Oil Fund of Azerbaijan, Permanent Reserved Funds of Alaska (USA), Governmental Oil Fund of Norway*. Today we propose to your kind attention the statement of Dr. Allan Warrack, Professor of Alberta University (Canada)».

At the beginning of his statement Professor Warrack emphasized, that he would be speaking particularly about Alberta's experience in utilization of natural resources as all decisions on Fund management in Alberta are made at the state level, but not at country level; local natural resources belong to Alberta Province only, but not Canada in general.

Alberta Heritage Fund – is not only the institution, which allows natural resources management, but political tool accountable to the public as well – said Professor Warrack. Establishing Alberta Heritage Fund politicians proceeded from the following economic justification: when you are economically stronger, you have more opportunities to allocate funds into social sector development. At the same time it is insufficient to have only economic wealth. Stability is also required. In the opinion of international expert these two components constitute economic strength of the States with raw-oriented economy. Establishment of funds saving natural resource revenues usually presumes handing your economic power over to the future generations and implementation of equitable resource distribution principle.

The National Energy Company was established in Alberta for the most effective management of natural resources and capacity-building for profitable investments. After its establishment shares were issued and company capitalization conducted, which resulted in the total amount USD 150 million. The State Government purchased half of the company; left shares were sold by small packages. Thus many citizens of Alberta State were able to earn enough money by these shares and had chance to make profitable investments, which was the company's goal.

Another idea of Professor Warrack is very important – the need of close cooperation between the Government and community during Oil Funds establishment. He underlined, that Alberta Government (he was a member of the Government at the moment decision was made on establishment of Alberta Heritage Fund) considered public perception of this event as the most important factor. Community participation in the process is very important to keep population trust to the

power and achievement of maximal transparency and accountability. By the end of his statement Professor Warrack proposed following recommendations on National Fund RK management:

- Kazakhstani permanent reserve heritage fund (different name could be given) should be established by separate Constitutional Law;
- Development of the Law on Fund should be comprehensive and open, as well as consultations and debates with participation of all concerned representatives of Kazakhstani community;
- 25-30% royalty from oil-gas resources should be transferred to the Fund;
- Executive Board of Kazakhstani Fund should be established without direct ties with governmental structures. There is need for regular public debates and review of Fund management strategy;
- Fund's finances management should include the following tasks:
 - preserving of capital's purchasing power;
 - annual reimbursement of loses from inflation;
 - following so-called «Harvard rule», i.e. direction of not more than 5% of investment revenue to the current needs;
- Kazakhstani Fund's dividends should be directed to the citizens of Kazakhstan. At least half of investment revenues should be given to them, which encourages citizens to be more careful and informed on Fund's activity;
- For recommendations' institutionalization independent commission should be established, consisting of members of the Government and Parliament, representatives of research institutes, business and trade union, non-governmental organizations.

Yu.Gerasimenko, Deputy Director of the Department on Monetary Operations of the National Bank RK, made a report at RT: «In my statement I would like to brief on the results of the National Fund (NF) management achieved within last years. Significant inflow of foreign currency last years and significant direct investments led to the growth of international reserves of the country including NF as well. In general, at the beginning of this year, international reserves of the National Bank exceeded USD 14 billion, including NF finances – USD 5 billion 100 million.

The Government RK signed the agreement in 2001 authorizing the National Bank to manage NF assets. At the same time investment strategy on Fund management was developed. The major operation goals at NF management according to current legislation are: Fund's assets safety, keeping sufficient level of assets liquidity and ensuring quite high level of assets profitability in long-term perspective.

In order to implement the abovementioned functions Fund's assets are divided by stabilization and safety portfolios. The first one is required for supporting the assets liquidity, the second one is mainly designed for provision of quite high profitability level. Safety portfolio, in its term, is subdivided by sub-portfolio of shares and sub-portfolio of obligations (25% – shares, 75% – obligations). When managing assets NF applies the principle of index management, i.e. the management outcomes and investment risks are fully dependent on the selected *standard portfolio* (note – standard portfolio – is the set of securities identified by the investor's concerns).

Profitability on investment portfolio is not high but stable. Assets of this portfolio could be turned into cash at any moment and paid out if necessary.

On the contrary, safety portfolio is invested in more profitable long-term financial tools – shares and long-term obligations.

All Fund's assets are kept abroad, in one of the largest banks-custodians in the world. Bank controls all operations in accordance with Fund's investment strategy, provides reports and calculates such indicators as risks, profitability etc.

At the beginning of the year 57% of Fund's assets were given for the external control to specialized companies on assets management. External control is applied, firstly, for diversification of management, secondly, for experience, know-how and management technique exchange, and, thirdly, for operations in the markets where National Bank staff has insufficient management experience.

Within 2004 Fund's assets profitability made 7, 61% in US Dollars. Since Fund's functioning in May 2001 its profitability in US Dollars made 5,16%. For comparison, last year Oil Fund of Azerbaijan had 2,6% or profitability, Norway Fund profitability is almost 9%, but they have different investment strategy, that is why this comparison is not correct».

A. Kabikenov, *th specialist of the Division of budget finances of the Department of accumulation and study of financial models under the Ministry of Finances RK*: «In my report I shall brief on the Government's strategy on formation and utilization of NF finances.

Now the Draft Concept on formation and utilization of NF finances for short-term perspective is at last development stage. During its development we took into consideration comments and proposals received at last RT PPRC. In par-expenditures, including by the state development institutes. Nos we do not clearly understand what projects of development institutes are financed from the budget;

– lack of open publication of audit reports on National Fund.

If, for example, we look at the last annual report of Alaska Fund and Alberta Fund, we will see that half of the report is audit report. Publication of the same reports would increase citizen's trust to the Government, to NF activity.

In our opinion, new division of authorities between different branches of power, established in Budget Code adopted in 2004, in fact, led to moving of NF management out of Parlia-

ticular we re-calculated the prices for barrel of oil in accordance with the new prices in the world market; this price is taken by the Government as the basis for budget planning. Draft of the new Concept is based on the balanced budget method. Now all oil sector revenues will be directly transferred to NF, and transfer from the Fund will go to the budget for financing of budget expenditures. As oil is not a renewable resource, we consider that this money should be go for funding of projects, which will work for the future generations. Concept foresees transfers to be directed from the Fund for development programmes financing.

Proposed *balanced budget method* is better than current one by the few parameters. It allows reduction of budget dependence on oil prices in the world markets, and *non-oil deficit* will promote better control over budget expenditures. Size of non-oil deficit will show the real picture in oil sector of economy. These more objective parameters will be reflected in the Law on republican budget and considered in fiscal policy. This in its turn will promote development of non-oil sectors of Kazakhstani economy.

This method will assist in better sterilization of money supply, reduce exchange rate of Tenge and keep growth of internal prices».

M. Makhmutova, *PPRC Director*: «The following aspects influence Kazakhstani economy growth: favorable world conjuncture, high prices for oil and other mineral resources, making export basis. The question raises in this regard: if there is economy overheat in Kazakhstan, if there are «Dutch disease» symptoms? Yes, there are such symptoms. It's determined first of all by significant growth of state expenditures.

The major concern is that growth rate of state expenditures exceeds GDP growth.

Right now the following tasks should be solved:

– development of unified management strategy for state expenditures, including through the all levels budgets, NF, development institutes, national companies, which influence aggregate demand;

– registration of formation and utilization of NF finances within the budget. Now there are certain legislative gaps. I think, there should be certain limitations for loans to the Government. Parliament, Counting Committee should provide regular control over budget ment control. The whole volume of Fund's finances is comparable to the republican budget!

We think that separate independent Law on NF is required, which would regulate all unsolved issues».

S.A.Abdildin, *KPK leader*, **O.N.Oksikbaev**, *Chairman of Counting Committee on control of republican budget implementation*, **A.U. Kuzhagaliev**, **A.S. Taspilov**, *deputies of the Parliament*; **M.A.Kireev**, *Director of Caspi Ecology*, **S.S.Sattarov**, *Head of the Department on management of the data base of natural resource users of the Ministry of energy and mineral resources* and others participated in the Roundtable discussion.

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Dear readers!

In this issue we propose to you kind attention information about the new project «Model for Public Watch over Health Care Spending», has been implemented by PPRC in Kazakhstan since March 2005 in collaboration with International Center for Policy Studies (Kiev, Ukraine) and Euro-Balkan Institute (Skopje, Macedonia). Since March till May 2005 experts involved in project implementation studied the best international experience in the area of public control over health care expenditures. Now the analysis of healthcare financing in Kazakhstan is taking place.

Model for Public Watch over Health Care Spending Project

Making the healthcare sector planning and budgeting more democratic and open for public control is a way to increase health policy efficiency in and improve health of population. Post-soviet countries still lack mechanisms, institutions, procedures and experience of public involvement into the government's decision-making process. These mechanisms are necessary to be in place in order to guide the public control process over distribution of public resources. These important mechanisms of day-to day democracy are key factors for building of effective democratic governance and improvement the quality of life. Model for Public Watch over Health Care Spending Project should provide the working model of effective public control over healthcare budget expenditures to local NGOs.

Project objectives:

- development of main principles for legislative framework necessary to support wider public involvement in decision-making process;
- working out effective system for informing of wide public;
- development of guidelines for NGOs.

Project Goal

The overall project goal is to enhance public awareness and civil participation on the local level through the development of effective mechanisms of public control over health care

spending, which could be applicable for South-Eastern, Central and Eastern Europe and Central Asia.

Project target group:

- wide public in large/medium towns;
- local authorities.

Activity in the frames of the Project:

- initial research on the best international experience in the area of budget watch;
- analysis of institutional and legal framework for the public control over budget spending in SEE,CEE countries and Central Asia;
- analysis of existing situation with data availability and information dissemination on the health protection spending ;
- development of public budget watch model;
- preparation of independent analysis of budget for health protection in one selected city of each country-participant of the project.

Expected outcomes/project products

- Development of practical model for local budget control, which includes major requirements to legislative and institutional basis, to information dissemination as well as independent analysis of healthcare budget spending.
- Publication "Budget Watch Model".

Presentation of project outcomes will take place after completion of the project.

On 16-18 May 2005 M.Makhmutova, PPRC Director took part in Central Asia Regional Workshop on Financing Local Expenditures (Istanbul, Turkey). Seminar was held in the frames of scaled project «Capacity-building for responsibility and accountability of local government in Central Asia», implemented by the World Bank Institute. Teams of experts and government officials from Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan took part in the Workshop.

On 19 May 2005 G.Mukhambetova, PPRC Deputy Director, took part in the NGO Forum «Right for freedom of associations – is future of civil society in the Republic of Kazakhstan», held in Astana. Dozens of Kazakhstani and international non-profit organizations arranged the event. Forum became the large public and political event of advocacy campaign against adoption of amendments to draft laws regulating NGOs' activity in Kazakhstan, which were proposed by the number of MP of Kazakhstan.

The major goal of the Forum was discussion of the Draft Laws:

- «Introduction of amendments and additions to some legislative acts of the Republic of Kazakhstan on the national state security»;
- «Introduction of amendments and additions to some legislative acts of the Republic of Kazakhstan on non-profit organizations»;
- «Activity of branches and representations (independent subdivisions) of international and foreign non-profit organizations in the Republic of Kazakhstan».

PPRC acted as one of co-organizers of the event. Representatives of the Government RK, Human rights commissioner in the Republic of Kazakhstan, deputies of Senate and Majilis of RK Parliament, local and international NGO's staff, journalists participated in the Forum.

Appeal to the President, Government and RK Parliament was carried out based on the Forum's outcomes.

On 26 May 2005 Roundtable on discussion of main provisions of UNDP Regional report «Regional Cooperation for Human Development and Security in Central Asia» took place in UNDP office in Astana. **Ms Yuriko Shodji**, UN Resident-Representative to Kazakhstan, and **Mr. Yacek Cukrovski**, Head of the team of international experts, involved in the report preparation, Adviser of UNDP Regional Bureau in Europe and CIS participated in the Roundtable. At Roundtable **M.Makhmutova**, PPRC Director, presented report based on Kazakhstan background study, prepared by the team of PPRC experts. You can see the report at PPRC site **www.pprc.kz**

On 30-31 May 2005 M. Makhmutova, PPRC Director, took part in the sixth meeting of the Network on Fight Against Corruption for Countries in Transition arranged by OECD/ Organization for Economic Cooperation and Development in Istanbul (Turkey). The Network was established in October 1998 in Istanbul. As per «Statement on Network Tasks», its major tasks are – to provide support to countries-members in their fight against corruption through arrangement of regional forum for popularization of anti-corruption activities, information exchange, development of best practice methodic and donors' coordination.

Network covers countries in transition as well as countries-members of OECD and EU in Central, Eastern and South-Eastern Europe, Caucuses and Central Asia. As well international organizations, international financial institutions (IFI), donor agencies, civil society structures and entrepreneur's associations participate in the Network's activity.

Plan of Action of the Network for 2005-2006 proposes to continue the major task – arrangement of Regional Forum on on Fight Against Corruption for Countries in Transition – and proposes to move from activities on raising awareness to (1) reporting and evaluation of progress, achieved by countries and donor programs, and (2) development of good practice methodic for implementation of anti-corruption policy.

Meeting agenda included the following issues.

1. International anti-corruption standards and conventions.
2. Monitoring of activities on fight against corruption.
3. Specialized bodies on fight against corruption.
4. Political corruption and possible future activity of Network.
5. Network Action Plan for 2005-2006.

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Dear readers!

In this issue we propose the information on establishment of new association of Kazakhstani NGOs – Coalition «From civil initiatives – to local self-government!», initiated by PPRC. Coalition was established in the frames of Local Government Project, implemented by the Public Policy Research Center under support of Soros Foundation -Kazakhstan and Local Government and Public Service Reform Initiative of the Open Society Institute–Budapest (LGI/OSI).

On 20-21 June 2005 Constituent Conference on establishment of *Coalition of Kazakhstani NGOs «From civil initiatives – to local self-government!»* took place in «Alatau» Sanatorium, Almaty.

Initiator of the event – Public Policy Research Center (PPRC).

Conference is the first event in the framework of Local Government Project, implemented by the Public Policy Research Center under support of Soros-Kazakhstan Foundation and Local Government and Public Service Reform Initiative of the Open Society Institute–Budapest (LGI/OSI).

Conference goal: mobilization of experience, forces, ideas and resources in order to strengthen social and institutional potential of civil society organizations for development and implementation of LSG in Kazakhstan.

Objectives:

- to initiate establishment of NGOs Coalition;
- to generalize the experience of Kazakhstani NGOs in LG development;
- to carry out the major principles and approaches to Coalition establishment and its activity arrangement;
- to elect Coalition Board;
- to identify plan of action of Coalition;
- to work out and sign Cooperation and Intention Memorandum of non-governmental organizations – members of Coalition.

Meruert Makhmutova, director of Public Foundation “Public Policy Research Center” presented information on the status of local self-government development in the Republic of Kazakhstan to the conference participants. **Gulnar Mukhambetova**, Deputy Director of the Center made a presentation of new PPRC Project «Local

Government: from civil initiatives – to democratic institute».

Constituent conference participants generalized and analyzed experience of non-governmental organizations of Kazakhstan by following key directions linked to the development of introduction basis for local government:

- community participation in tackling of local problems and local socio-economic development;
- community participation in local budgets watch;
- NGO experience in consulting and training of local authorities on strategic planning and local development;
- introduction of modern ICT for provision of transparency and accountability of local public administration and development of local self-government.

Based on the conference outcomes the participants identified the major problems, opportunities and perspectives for non-governmental organizations participation in the development of local self-government institute in the Republic of Kazakhstan. NGOs representatives-participated in conference agreed to play the role of founders of Coalition «From civil initiatives – to local self-government!».

In order to establish basis for further activity of Coalition 26 participants developed and signed Cooperation and Intention Memorandum, which is presented below. You can also see the list of NGOs establishes at: www.pprc.kz.

For additional information please do not hesitate to contact Gulnar Mukhambetova, PPRC Deputy Director, Local Government Project Director, National Coordinator of «From civil initiatives – to local self-government!» Coalition at ph.: (3272) 67-04-32 or e-mail: info@pprc.kz

COOPERATION AND INTENTION MEMORANDUM

21 June 2005, Almaty, Kazakhstan

We, undersigned non-governmental non-profit organizations of the Republic of Kazakhstan, having discussed the status of local public administration in our country, recognize that last decade reforms resulted in significant changes in all fields of public relations, which requires democratization and transformation of local government system.

The major component of administrative reforming, in our opinion, should be development of local self-government (LSG) institute. At the same time we adhere the idea of LSG being not only the form of citizens self-organization, but as well full-fledge level of public power, with all correspondent legitimated socio-political and economic rights, responsibilities and power authorities.

The main goal of LSG formation and development in Kazakhstan is practical fulfillment of every citizen's right to participate in tackling of problems related to development of locations he lives in, for effective capacity-building and establishment of conditions for its self-realization. Local government is public institute directly and fully expressing people's power. Kazakhstani NGOs involved into support of civil initiatives establish Coalition «From civil initiatives – to local self- government» and unite their efforts for promotion and development of local government in our country.

We consider the major objective in achieving of this goal – assistance in formation of favorable environment and necessary preconditions for introduction of local government institute through:

- Raising public awareness about principles of LSG formation, functioning and objectives for implementation of civil Constitutional right to participate in public administration;
- Raising public understanding of perspectives and barriers, which establishment of LSG institute in Kazakhstan faces;
- Arrangement of public support for the local government reform;

- Training of personnel for LSG – elective leaders and municipal servants.

Coalition will aim its activity at community participation in working out proposals, development and wide discussion of future Law «About Local Self-Government in the Republic of Kazakhstan», and later – its intensive public advocating on the implementation level. The special attention will be given to awareness and education of population in the fields, as our initiative requires wide and valuable public support.

Coalition intends to provide regular monitoring and evaluation of decision-making on all issues related to local self-government at local and republican levels.

The following key activities of Coalition on promotion and protection of public interests will include: public discussions of administration reform, meetings between NGOs and Deputies of the Parliament and Government, presenting of public petitions to them, response in central and regional mass media.

In order to achieve the common goals of LSG development in Kazakhstan, Coalition members are guided by the principles of collaboration, mutual assistance during elaboration and approval of programs and actions, openness and wide access to information on local government. Coalition is open for any organization with sufficient knowledge and resources, which is able to provide assistance to all concerned agencies in studying issues and problems of local self-government. Coalition members will involve resources of Kazakhstani, international and inter-governmental organizations for programs and projects development and implementation.

Acting on behalf of our organizations we recognize reasonableness and purposefulness of concerted actions directed at promotion and development of local self-government institute in the Republic of Kazakhstan, and accept the current Cooperation and Intention Memorandum as the basis for the future actions.

We agree to act within the Coalition, joining resources for coordinated actions and striving to comply our activity with the principles of current Cooperation and Intention Memorandum.

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Dear readers!

In this issue we propose information about the Roundtable «Implementation of Extractive Industries Transparency Initiative in the Republic of Kazakhstan», which PPRC held on 5 July 2005 in Almaty. Deputies of RK Parliament, representatives of oil companies, International and Non-governmental organizations, embassies, research institutes and mass media.

Roundtable was aimed at establishment of open, constructive discussion, related to strategic implementation of *Extractive Industries Transparency Initiative (EITI)* in Kazakhstan, with participation of state authorities, oil companies and civil society.

RT organizex had the following objectives:

- to present to Kazakhstan community the international experience on Extractive Industries Transparency Initiative (EITI) implementation;
- to identify the major positions and proposals on solving the problems, related to improvement of transparency and efficiency of raw sector revenues use in the Republic of Kazakhstan;
- to present analytical report on comparative analysis of National Fund RK and Alaska Permanent Fund activities, prepared by the Public Policy Research Center in collaboration with Richard Steiner, International expert;
- to improve open public discussion of state policy issues, related to improvement of transparency and efficiency of raw sector revenues use in Kazakhstan.

The following participants presented their reports at Roundtable:

- **Richard Steiner**, Professor of Alaska University (USA), author of many publications on raw sector taxation, effective management of natural resources, oil funds activity;
- **Katrin Inglehern**, Deputy Great Britain Ambassador to Kazakhstan;
- **Pedro Rodriguez**, Senior Economist of WB Regional Office;
- **M. Makhmutova**, Public Policy Research Center Director.

In her opening remark **M. Makhmutova**, PPRC Director said: «This Roundtable is the first open discussion of practical issues related to Transparency Initiative implementation in Kazakhstan; it identifies future actions for concrete and important results».

K. Inglehern in her statement viewed major principles and objectives of Transparency Initiative as well as implementation mechanisms in Kazakhstan. «After the President's statement at international business-conference on 16 June, that joining this Transparency Initiative would be a very important step for Kazakhstan, the ministries

started to aggressively work on preparation of Initiative implementation in Kazakhstan.

We all now should make our best efforts to raise awareness of population about this Initiative and benefits for the society.

The major objective of Extractive Industries Transparency Initiative proposed by T.Blair in 2002 is to ensure transparency of payments extraction companies make to the Government, and Government's revenues, received from the companies as bonuses, royalty and taxes.

Payments by oil-gas State industries should serve to development of the country. More than 20-years experience proved lack of correspondent reporting in many countries with rich natural resources. This situation causes serious problems, for instance, such as corruption and poverty.

Our efforts are directed at development of clear and accessible reporting mechanisms for the Government and companies, in order to make the community aware on how these revenues are distributed. It is important to distribute these revenues equally and free them from corruption.

Another important principle of Initiative is reduction of non-transparent revenues distribution and prevention of social conflicts through getting over their main causes – excessive disproportion in social welfare distribution and lack of responsible and accountable management.

First countries, which undertook important steps on Initiative implementation, were Azerbaijan, Ghana, Kyrgyz Republic and Nigeria. Kazakhstan as well should be included in the list.

How will Transparency Initiative implementation benefit? First of all, this leads to improvement of investment climate. International Financial companies trust the country, which implements the Initiative more and more; favorable investment climate for direct foreign investments into national economy is created.

Besides, good management, application of transparency principles in natural resources revenues management directly improves the general economic situation in the country. As well the most important Initiative's role is that it helps to balance political risks, or, at least, extenuate them».

R. Steiner reported on Alaska State experience in management of natural resources revenues.

«Within last 30 years Alaska received about USD 100 billion oil-production revenues. Out of this amount the Government received about 60 - 70% of revenues, extractive branch – from 30 to 40%. I think: exactly the same revenues proportion is the best optimal. We should always take into consideration that oil as non-renewable wealth belongs to the community.

In which way the money from natural resource extraction is used? In Alaska, approximately, 50% is spent for education, healthcare, roads, ecological programmes, another 50% are accumulated.

I think that namely the people of Kazakhstan (neither the Government nor oil companies) should make decisions on how to use oil revenues. Inasmuch the oil belongs to the people but not companies.

As for today the size of Alaska Permanent Reserve Fund is about USD 30 billion. The main goal of Alaska Fund is to preserve the certain proportion of oil-production revenues for future generations.

In Kazakhstan you, yourselves, should make a decision on how to distribute your natural resources revenues, how much should be spent, how much should be accumulated. It is very important that citizens also have right to participate in decision-making on these issues.

The basic principle in Alaska Fund management is that: it is prohibited to use fixed capital without approval by citizens.

Six authorized people manage our money; Governor and one member of State Government Cabinet appoint these people. This is the corporation, which once a year has general meeting and ten more meetings for discussion of different technical issues. Authorized people hire Executive Director – the Fund's Director. Director is responsible for hiring of personnel, and about 30 external portfolio managers, who manage Fund's assets abroad.

Transparency is very important issue, which we face. Fundamental role of democratic Government is to ensure management transparency, because functioning of real democracy is not possible without it.

The activity of your Government should be based on the highest interests of its people, but not on the interests of extractive companies. This is the major principle of natural resources revenues management.

Government should start withdrawing 60-70% of natural resources monies. It is required to leave not more than 30% for extractive companies. New financial policy for distribution between expenditures and savings should be developed. Analysis of expenditures in each sphere is required.

Every transaction between the Government and oil-production companies should be public. I think, this requirement is the key element of transparency process».

The below recommendations were developed after Roundtable discussion and handed over to inter-agency Working group on development of recommendations and position of Kazakhstan on Great Britain Extractive Industries Transparency Initiative (EITI) implementation.

1. It is important to develop special methodology on presenting reporting data on natural resources revenues in the frames of Extractive Industries Transparency Initiative with explanation of indicators to be included into reports.

2. The reports to be presented to the Government RK in the frames of Extractive Industries Transparency Initiative should publish financial deductions and incomes separately by each company.

3. Kazakhstan should join correspondent international documents in the area of transparency, accountability, and struggle against corruption.

4. In the frames of Initiative implementation it is required to establish partnership with extractive companies. They might place information on Transparency Initiative at their sites, participate in the promotion actions.

5. In order to support the Initiative National Fund RK should establish Committee on Civil Control, present widely accessible quarterly and annual reports, hold public hearing.

6. All contracts with extractive companies and transactions between the Government and oil-production companies should be transparent.

7. Government and Parliament should carry out the strict procedure of auditing and possible withdrawal of natural resources revenues.

8. National Fund audit should be independent, inspire trust and be based on the best world experience. The society should have access to its outcomes.

9. it is necessary to develop concrete mechanism to ensure and guarantee participation of public, citizens of Kazakhstan in the decision-making on National Fund.

10. To prevent adoption of amendments to the drafts laws, regulating activities of non-governmental organizations in RK, proposed by the number of deputies of RK Majilis. Inasmuch if these amendments will be adopted, civil society as a part of EITI implementation will not be able to work.

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Public Policy Research Center
Центр Анализа Общественных Проблем

PPRC NEWSLETTER

Dear readers!

The next 9th issue of «Quarterly predictions» magazine was published upon the results of 2004 and the 1st quarter of 2005. In this Newsletter we publish brief summary of all major sections of the magazine. Since September 2004 it is possible to subscribe to the magazine. You can find it in the Catalogue of Kazpochta (subscription index 75113) and subscribe to the magazine in any branch of OAO «Kazpochta», AO «Dauys», TOO «Kaz Press» (former TOO JV «Argumenty i fakty Kazakhstan»).

«Quarterly predictions»

Magazine is a periodical of the Center devoted to analysis of current social and economic situation and short-term predictions of its development. Below you can find the content of the major chapters. Also, magazine has rich statistical data as well as predictions of the Center for 2004-2006. Some crucial questions are included into boxes.

MACROECONOMIC REVIEW

High rates of economic growth remain. GDP volume in 2004 made Tenge 5,542.5 billion (growth by 9.4% vs. 2003). In the 1st quarter of 2005 GDP volume increased by 9.1%. Slowing of inflation by 7% is quite complicated task in the conditions of 2005 budget financing expansion. Economy overheating which affects Tenge exchange rate will remain.

The main objective for 2005-2007 will be to ensure adequate growth in oil-production sectors. We anticipate in 2005-2007 slowing of economy development rates. We predict that GDP growth in 2005 will make 8%, in 2006-2007 – 7%.

STATE FINANCES

In 2004 state budget revenues made 23.2 % of GDP, expenditures – 22.4% of GDP, deficit – 0.3% of GDP. At the

same time the amount of unspent funds in 2004 grew to Tenge 47 billion: Tenge 31.3 billion by the Republican budget and Tenge 16 billion by local budgets.

This trend remained in 2005. In the 1st quarter of 2005 the State budget was implemented with almost Tenge 50 billion profit, which is related to untimely implementation of local budgets.

We predict that economic growth will allow increasing revenues and expenditures of state budget in 2005 to 24.8% of GDP. In 2006 we anticipate reduction of revenues till 24.5 %, in 2007 – till 24% of GDP. Budget deficit in 2006-2007 will not exceed 0.5% of GDP.

MONETARY POLICY

Significant currency inflow into inner market in 2004 stipulated growth of pure international reserves of NB to USD 9.3 billion. Real increase of Tenge against currencies of countries – major trade partners – made 6%.

In order to decrease negative factors affecting inflation National Bank (NB) implements tough money-and-credit policy. Since 1 February 2005 refinancing rate was increased to 7.5%.

PRICES

Inflation in 2004 made 6.9%. The following events had an influence on inflation growth: high oil prices, inflation import and monetary factors. Prices for industrial products increased by 23.8% (this is maximal growth within last five years).

Inflation in the 1st quarter of 2005 made 1.9%. Inflation growth occurred due to increase of prices for food stuffs and payable services. Prices for industrial products increased by 5.3% comparing to the same period of 2004.

EXTERNAL SECTOR

Foreign economic conjuncture in 2004 was extremely favorable for Kazakhstan exporters. As per the results of 2004 positive trade balance reached USD 7.3 billion (Customs office data). We predict that if favorable trends remain annual volume of commodities export will make in 2005 not less than USD 22 billion.

REAL SECTOR

Industrial production volume in 2004 increased by 10.1%, within the 1st quarter of 2005 – by 7.4% against the same period of last

year. We assume that significant inflow of direct foreign investments into oil and gas production, growth of capital investments into metallurgical industry shall positively influence growth of industrial production volumes: in 2005 – by 9.0%, in 2006-2007 – by 8.5%.

AGRICULTURE

Gross production in agriculture has decreased by 1.1% in 2004, which happened due to poor grain harvest. In the 1st quarter of 2005 gross production growth by 3.5% was provided by means of cattle breeding and stipulated by production

seasonality. In 2005-2007 we predict average annual growth rates in agricultural production within 1.5%.

LABOR MARKET

In 2004 labor market kept last years trends, the number of employees in economy increased, unemployment decreased till 8.4%.

Decrease of minimal wages from 1 January 2005 and production growth in the basic branches furthered wages growth and unemployment reduction. As we predict, wages in real expression in 2005 will grow by 11.3%, in 2006 – by 10.2%, in 2007 – by 11.5%. In

2005 the unemployment level will make 8.1%, in 2006 – 7.8%, in 2007 – 7.5%.

HOUSEHOLDS

In 2004 real cash incomes of population will grow by 13.2 % provided by the wage and employment growth. This influenced poverty reduction to 16.1% as per the year's results.

As we predict, real cash income of population will make in 2005 12.2%, in 2006 – 19.6%, in 2007 – 14.1%. Poverty scales will reduce by 4.1% in 2005, in 2006 – by 0.8%, in 2007 – by 4.8%.

PPRC NEWS

On 29 July 2005 M/Makhmutova, PPRC Director participated in the enlarged meeting of inter-agency Working Group on elaboration of recommendations and position of Kazakhstan in Great Britain Extractive Industries Transparency Initiative (EITI) implementation, which took place in Astana in the Ministry of Power Engineering and Mineral Resources RK.

Representatives of the Ministry of Finance, Economy and Budget Planning, Foreign Affairs, Industry and Trade, Justice, Environment Protection, AO “NK KazMunaiGas” and Deputies of RK Parliament are the members of the Working Group.

As well members of RK Government, staff of ministries, oil companies, World Bank, deputy Great Britain Ambassador, NGO representatives participated in the Working Group meeting.

Draft Memorandum of Understanding on Initiative implementation in Kazakhstan was discussed during the meeting. According to Mr.V.Shkolnik, Head of Working Group, Minister of Power Engineering and Mineral Resources RK, Memorandum is planned to be signed at the beginning of October 2005.

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PPRC NEWSLETTER

Dear Readers,

In this issue you can get familiar with the comments of Public Policy Research Center on the draft of Memorandum of Understanding with respect to Extractive Industry Transparency Initiative (version as of 18.08.05) that was prepared by Working group headed by Vladimir Shkolnik, Minister of Energy and Mineral Resources, in cooperation with Kazakhstan Petroleum Association. This recommendations are forwarded to Working group on implementation of Extractive Industries Transparency Initiative in the Republic of Kazakhstan and Kazakhstan Petroleum Association.

Proposals to the draft of Memorandum of Understanding with respect to Extractive Industry Transparency Initiative (version as of 18.08.05)

Implementation of Extractive Industry Transparency Initiative in Kazakhstan is an important indicator of country development. Drafted by the Working Group in collaboration with Kazakhstan Petroleum Association proposed Memorandum of Understanding with respect to Extractive Industry Transparency Initiative (hereinafter – Memorandum) contains contradictory provisions, which prevents from full-value implementation of Extractive Industry Transparency Initiative in Kazakhstan.

We would like to draw attention to the number of issues to be raised during Memorandum discussion and decided before it signed.

1. It is an important step to include Parliament as a party of Memorandum that recognizes the role of Parliament in raw sector revenue watch. However, sampling list of deputies, and all the more, recognizing them as a Party when signing the Memorandum (for example, for implementation of p.9 they may delegate three of five: should they throw lots?) looks unjustified. The more proper way would be to recognize the Parliament a Party as the Superior Representative Body, represented at signing of the document. In its turn, Parliament at the first joint meeting of the chambers of new session could delegate deputies to discuss and sign the Memorandum, monitor implementation of Extractive Industry Transparency Initiative. If these arguments are recognized justified the text of the Memorandum should be corrected respectively.
2. Draft Memorandum leaves unclear the issue of what should be promulgated to raise public awareness. Neither item of the Memorandum provides if the reports prepared by the authorized body (Ministry of Finances RK) and extractive industry companies should be published. Moreover, p. 5, sp. (e) provides that «The Audit Company and the Working Group should permanently store individual reports, presented by the Extractive Industry, strictly confidential, without full or partial dissemination of data to any other parties of the Memorandum, to the third persons or public».
3. In practice, this means that neither general public, nor deputies of the Parliament, nor representatives of non-governmental organizations, which as per current version of the Memorandum are «other parties», will be aware of payments by the companies to the budget. This questions the actual implementation of the Extractive Industry Transparency Initiative, as its first criteria is «Regular publication of all oil, gas and mining payments by companies to governments («payments») and all material revenues received by governments from oil, gas and mining companies («revenues») to a wide audience in a publicly accessible, comprehensive and comprehensible manner».
4. P. 11 touches upon the same problem: «The Parties agree to treat all material received in relation to the Memorandum as strictly confidential until such time as all Parties agree upon its disclosure or publication.». As the analysis of previous article shows the Parties should be considered only 1) Working Group, 2) companies themselves, and 3) Audit Company, as they promulgate the information on reporting neither to deputies of the Parliament, nor to the NGOs representatives.
5. Further in the same paragraph: «The Working Group by a mutual agreement of the Parties, approves the list of materials that shall be published in press for a wide discussion of a projected». Neither paragraph of the

Memorandum explains, what «General Report» means. Analysis of all correspondent paragraphs of the Memorandum shows limitation of decision-making parties in this important issue: 1) Working Group, 2) companies themselves. In this case, deputies of the Parliament and NGOs representatives should be included into the Working Group, which would allow them acquainting with the companies' reporting and participating in the decision-making. Current version of reporting makes implementation of Extractive Industry Transparency Initiative a more formality as it retains existing «status quo»: companies report to the government, at the same time neither Parliament, nor civil society has no idea about actual payments of the companies and revenues of the government from the extractive sector.

6. In the light of the abovementioned the note in the p. 5 sp.(d) looks unjustified, saying that MEMR agreed to exclude this paragraph: «Audit company after gathering, verification and analyzing of the reports, presented by extractive sector companies, sends the copies to the Working Group».
7. Before Memorandum signed it is important to discuss in its text the list of report types, to be published for awareness of Kazakhstan citizens. Meanwhile only mention of publication of joint press-release on the results of audit was made clear (p. 7).
8. Types of reporting. In the paragraph 1 the types of reporting are mentioned, which were recommended at the International EITI conference in London on 17 June 2003. In our opinion, types of reporting in the «Source book for «Extractive Industry Transparency Initiative», prepared by EITI Secretariat in the Department for International Development of Great Britain (DFID) in March 2005 should be taken as a basis.
9. Three types of reporting should be taken into consideration when implementing Initiative in Kazakhstan: one for the Government and two for the companies; (1) contracts for utilization of mineral resources and (2) agreements for production sharing should go separately as types

of taxes and payments within these contracts are different.

10. It will be correct to emphasize in the companies' reporting the actual volumes of extraction not only in barrels as it was proposed, but in tons as well, as the quality of oil differs depending from oilfield: from light Tengiz oil, which quality is close to Brent, to heavier sorts. At present time the Government publishes the reports in tons, however the budget forecast includes prices for barrel of oil that prevents evaluation of forecast adequacy. It is known that depending on the quality of oil the number of barrels in one ton may wobble from 7.1 to 7.5.
11. When implementing the EITI the Government of Kazakhstan and extracting companies should not be guided by the experience of Azerbaijan (the Memorandum practically was fully imported, which explains all its shortcomings), but by the best international experience. For example, Statoil made an important input in implementation of the EITI by publishing in the 2004 report the details of direct and indirect tax payments in 26 countries of the world, where it works (one can see the report «Sustainable Development Report 2004» at www.statoil.com).
12. Audit report on Azerbaijan checking-up the government and companies' reports revealed discrepancies between them, however the measures taken in this case are still unclear (one can see the audit report at www.eitransparency.org). This is just a statement of fact. In our case, Memorandum should foresee the measures to be undertaken when discrepancies revealed in the reports of the government and companies.
13. Starting EITI implementation in Kazakhstan we should take into consideration that Memorandum signed by all parties still will not be able to cover all issues. In this regard, the paragraph: «Parties agree that Memorandum should be overviewed and modified on regular basis (not less than once a year) in order to allow for problem solution which may arise during the Initiative implementation».

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